Fiscal Year 1999

Financial Performance Report

FINANCIAL PERFORMANCE REPORT

Fiscal Year 1999

In Fiscal Years 1997 and 1998, DOL participated in the pilot Accountability Report program authorized under the Government Management Reform Act. For FY 1999, the Department elected to add the new Annual Performance Reporting requirements of the Government Performance and Results Act to the Accountability Report. This section provides legislative reporting and other financial performance information for:

MANAGEMENT OF DOL'S FINANCIAL RESOURCES

- Legislative Reporting Requirements
- FY 1999 Assistant Inspector General's Report
- Financial Statement Audit Findings Under the Chief Financial Officers Act
- Federal Financial Management Improvement Act (FFMIA) Reporting
- Federal Managers' Financial Integrity Act (FMFIA) Reporting
- Management Reporting Under the Inspector General's Act Amendments of 1988
- DOL Financial Systems and Operations

  Modernization of the Department's Core Accounting System

  Debt Management

  Electronic Funds Transfer (EFT)

  User fees

  Electronic Data Processing (EDP) Systems

  Support for the CFO Council

CONSOLIDATED FINANCIAL STATEMENTS

- Principal Financial Statement and Notes
- Required Supplementary Stewardship Information
- Required Supplementary Information
- Supplementary Social Insurance Information

MANAGEMENT OF DOL'S FINANCIAL RESOURCES

The Office of the Chief Financial Officer (OCFO) established four agency strategic goals in FY 1999 to support the goal of maintaining integrity and stewardship of DOL's financial resources. These were:

- to provide leadership and advice on financial management matters to the Secretary of Labor, DOL program managers, and the financial community government-wide;
- to protect and effectively manage the Department's financial resources;
- to assure that high quality financial management products and services are delivered to OCFO customers; and,
- to recruit, train, and maintain an effective financial management staff.

Following are some of the highlights and key results in each of these strategic areas:

Leadership

OCFO's goals with regard to financial management leadership are to provide a strategic focus for financial management issues and to influence financial outcomes in a positive manner.

- The Department earned its third consecutive unqualified ("clean") audit opinion for consolidated financial statements.
- Through leadership of the Chief Financial Officer (CFO) Advisory Council and regular consultations with Executive Staff and Administrative Officers, OCFO provided a critical forum for the identification, discussion, and resolution of financial issues and concerns.
- OCFO's contribution to strategic planning for financial management provided a balanced view of the strengths and challenges faced by the Department, as envisioned by the Government Performance and Results Act.
- OCFO supported DOL's successful Y2K remediation by providing enhancements to the core accounting system, thus ensuring that all mission critical systems were Y2K compliant on-time.

Stewardship

The Secretary, Congress and the American people must have confidence that Departmental resources are used as intended with the greatest efficiency. OCFO responded well to the many new laws, regulations, policies and procedures that challenge our financial management resources.

- Significant progress was made toward implementation of managerial cost accounting principles and practices in the Department. Efforts are underway in several agencies, supported in part by expert resources from the private sector.
- OCFO took aggressive action to address weaknesses in accounting reconciliations to meet strict new Department of Treasury and Office of Management and Budget (OMB) requirements.
- The Department improved its performance during FY 1999 with regard to debt referrals

and electronic payments. By the end of FY 1999, DOL agencies had referred 83 percent of eligible debt to Treasury, and had reached over 97 percent performance in electronic payments for salaries, travel and grants.

- OCFO led the production of the DOL Accountability Report, with significant improvements in presenting a "balanced scorecard" of successes and challenges.

Products and Services

OCFO manages and operates the Department's core accounting and payroll systems. Many important enhancements were made to these critical products during the past fiscal year.

- Both the payroll and accounting systems, among the Department's 61 mission critical systems, were made Y2K compliant well before the March 31, 1999 due date and under budget.

- Over 7,000 DOL employees are now reporting their time and attendance electronically, reducing processing costs and providing more timely and accurate information.

- In conjunction with the Office of the Assistant Secretary for Administration and Management, OCFO played a leadership role in developing and implementing a new Human Resource and Payroll system in DOL. Phase I implementation occurred in May 1999. Phase II will address integration of a new payroll module in 2001.

- OCFO conducted a requirements analysis of its central accounting system with the support of an outside consultant. The resulting recommendations will provide a blueprint for investments over the next several years to ensure that DOL maintains its leadership position among Federal agencies in this area.

Human Resources Management

- OCFO invested in the development and delivery of innovative professional development events for financial management employees throughout the Department, including university level courses provided via the Internet and training specifically focused on operational weaknesses.

- OCFO made substantial progress in implementing a new model for professional development within its organization. Building on government-wide guidelines issued by the CFO Council, over 75 percent of the OCFO workforce received over 3,900 hours of training during the past fiscal year to develop and improve core competencies. ■

LEGISLATIVE REPORTING REQUIREMENTS

The Government Management Reform Act authorizes the Office of Management and Budget to consolidate into one report a number of statutory reporting requirements. The Department is submitting this report, which encompasses the *FY 1999 Accountability Report* and the *FY 1999 Annual Performance Report* under OMB guidelines.

The Chief Financial Officers Act prescribed the compilation and audit of annual financial statements. In addition to expressing an opinion in the audit on the fair presentation of the principal financial statements, the Department's Officer of the Inspector General (OIG) has other reporting responsibilities under standards issued by the American Institute of Certified Public Accountants and OMB bulletin 98-08, Audit Requirements for Federal Financial Statements, including the identification of:

Reportable Conditions: Significant deficiencies in the design or operation of internal controls that could adversely affect the Department's ability to record, process, summarize and report financial data.

Material Weaknesses: Reportable conditions that could result in misstatements in amounts that would significantly affect the financial statements. The FY 1999 DOL audit revealed no material weaknesses.

Compliance Issues: Instances of noncompliance with laws and regulations pertaining to the Department, including the financial systems standards in FFMIA.

The Federal Managers' Financial Integrity Act of 1982 requires the Secretary to report to the President and Congress on the adequacy of management controls in safeguarding resources. The Act further prescribes the reporting of:

<u>Material weaknesses under Section 2 of the Act</u>. Federal agency heads are required to report management control weaknesses that significantly impair the fulfillment of an agency or component's mission, deprive the public of needed services, or significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets.

<u>Financial system nonconformances under Section 4 of the Act</u>. This reporting requirement has been superceded by requirements to report all instances in which financial systems are not in compliance with the standards prescribed in the Federal Financial Management Improvement Act. These weaknesses are reported whether or not they comprise material nonconformances with financial systems standards.

The Inspector General Act Amendments of 1988 require the Department to report on management's efforts to close recommendations in audits conducted by OIG. ■

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

ASSISTANT INSPECTOR GENERAL'S REPORT

**TO THE HONORABLE
ALEXIS M. HERMAN
SECRETARY OF LABOR**

The *Chief Financial Officers Act of 1990* (CFO Act) requires agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet the CFO Act reporting requirements, the United States Department of Labor (DOL), a Department of the United States Government, prepares annual financial statements, which we audit.

The objective of our audit is to express an opinion on the fair presentation of DOL's Fiscal Year 1999 principal financial statements. Our objective also is to obtain an understanding of the Department's internal control and test compliance with laws and regulations that could have a material effect on the financial statements.

We have audited the consolidated balance sheet of the United States Department of Labor as of September 30, 1999, and the consolidated statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the year then ended.

These financial statements are the responsibility of the DOL's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 98-08, as amended, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**RELATIONSHIP TO THE
SINGLE AUDIT ACT**

The financial statements for the year ended September 30, 1999, include:

- costs for grants, subsidies, and contributions primarily with various State and local governments and nonprofit organizations in the amount of $8.4 billion;
- costs for unemployment benefits incurred by State employment security agencies in the amount of $20.8 billion;
- state employer tax revenue of $18.9 billion;

- net receivables for State unemployment taxes and benefit overpayments of $.6 billion; and
- reimbursements from state, local, and nonprofit reimbursable employers in the amount of $1.0 billion, for unemployment benefits paid on their behalf.

Our audit included testing these costs, financing sources, and balances at the Federal level only. Pursuant to a mandate by Congress, the examination of these transactions below the Federal level is primarily performed by various auditors in accordance with the Single Audit Act of 1984, as amended, and OMB Circular A-133. The results of those audits are reported to each Federal agency which provides direct grants, and each Federal agency is responsible for resolving findings for its awards.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements referred to above present fairly, in all material respects, in conformity with generally accepted accounting principles:

- the assets, liabilities, and net position of the Department of Labor as of September 30, 1999; and
- the net cost, changes in net position, budgetary resources, reconciliation of net costs to budgetary resources, and custodial activity for the year ended September 30, 1999.

OTHER ACCOMPANYING INFORMATION

Our audit was conducted for the purpose of forming an opinion on the FY 1999 principal financial statements of the DOL. The accompanying financial information discussed below is not a required part of the principal financial statements:

- The information in the Required Supplementary Stewardship Information and the Required Supplementary Information sections of the Department's annual financial statements is required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.
- The information in the Overview and Supplementary Social Insurance Information sections of the Department's annual financial statements is presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we express no opinion on it.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 98-08, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters, discussed in the following paragraphs, involving the internal control and its operations that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

In addition, we considered the DOL's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal controls, determining whether they had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 98-08, as amended. The objective of our audit was not to provide assurance on these internal controls. Accordingly, we do not provide assurance on such controls.

Finally, with respect to internal control relating to performance measures included in the Overview of the Department of Labor, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions as required by OMB Bulletin 98-08, as amended. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls. However, we noted certain deficiencies in internal control over reported performance measures discussed below that, in our judgment, could adversely affect the agency's ability to collect, process, record, and summarize performance information and report performance measures in accordance with management's criteria.

Management's comments on the internal control over financial reporting, Required Supplementary

Stewardship Information, and performance measures findings and recommendations, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings are included in the Findings and Recommendations section of this report.

REPORTABLE CONDITIONS

We identified the following conditions that we believe are reportable conditions.

EDP Controls

Deficiencies exist concerning general controls and security of the EDP systems that support the financial statements of the Department. Improvements are needed in the following areas:

(a) entitywide security program planning and management structure;

(b) access controls over physical and logical access to computer resources to limit access and detect unauthorized access;

(c) application software development and change controls to prevent unauthorized programs or modifications to existing programs from being implemented;

(d) system software policies and procedures to limit, monitor, and control access to, use of, and changes to system software;

(e) segregation of duties (policies, procedures, and an established organizational structure so that one individual cannot control key aspects of computer-related operations); and

(f) service continuity through a documented and periodically tested comprehensive contingency plan to prevent and minimize potential damage and interruption of critical operations.

The Office of the Chief Information Officer (OCIO) has developed a draft Computer Security handbook and a draft Systems Development Lifecycle manual, which are in the approval process. These manuals address all of the above-mentioned areas of concern. The OCIO will help agencies achieve compliance with the manuals once they have been approved and disseminated.

Accounting for Grants

Grant accounting has the following deficiencies:

- ETA's system for recording grant costs in FY 1999 did not substantially comply with FFMIA requirements. A substantial portion of FY 1999 grant costs were not recorded in the general ledger, and we noted various internal control weaknesses over grant costs.
- ETA grant and contract costs recorded in FY 1999 were not accurate, timely or complete.
- ETA transfers of funds by JTPA grantees were not monitored for compliance with the regulations, and were not recorded in ETA's accounting records.
- We noted severely delinquent cost reporting on the part of ETA's grantees and contractors.

- BLS and OSHA were not reconciling grant transactions recorded in the Department of Health and Human Services' Payment Management System (HHS/PMS) and DOLAR$, and were not sufficiently closing old grants or de-obligating unused grant balances.
- ETA does not have written grant accounting procedures for use at the regional offices. This has resulted in inefficiencies and procedural errors in the grant accounting function.
- We continue to note a lack of timely recording of ETA grantee and contractor cost information.
- ETA regional offices do not consistently reconcile cash transactions recorded in the HHS/PMS with those recorded in the Grant and Contract Management Information System (GCMIS), despite the fact that instructions requiring such reconciliations were issued by the Office of Regional Management in prior years.
- We noted inappropriate cost adjustments recorded in ETA's GCMIS, and adjustments which were not sufficiently supported.

ETA has taken significant corrective action on many of the above weaknesses between year end and the date of our report that immediately address the most significant of the control weaknesses to ensure cost reports are timely recorded while pursuing a more comprehensive long-term solution.

Accrued Costs

In prior years, we made recommendations to ETA regarding the method and timing of its accrual for costs incurred but not yet reported by grantees and contractors. While ETA revised its accrual methodology, this revision was made only to the year-end entry rather than to the automated accruals booked throughout the year. Further, ETA has not developed a process to periodically review and refine the accrual methodology, and to ensure that the methodology applied is based on current information and relationships between actual costs and payments. In FY 1999, we found that the grant cost accrual recorded in DOLAR$ was inappropriately applied and was not documented with relevant, sufficient and reliable data.

Since year end and the date of our report, the CFO has developed significant procedural changes to the accrual process as well as contracted with a consulting firm to assist the Department in evaluating the accrual methodology.

Funds With Treasury

The Department continues to have problems reconciling its accounts with Treasury. Unreconciled differences at September 30 increased 18 percent over FY 1998 and 54 percent over FY 1997. Because of these differences with Treasury, the Department cannot ensure that all deposits and disbursements are accurately recorded. The differences also indicate a vulnerability for an increased risk of fraud, waste, and mismanagement.

Wage and Hour's Back Wage System

As we have noted for several years, the Wage and Hour Division (WHD) does not maintain sufficient control over information recorded in the back wage subsidiary system (Back Wage Collection and Disbursement System – BCDS), and certain policies and practices exercised by the regional offices preclude the use of this system as a reliable subsidiary for back wages. In response to the FY 1997 report, WHD stated they would redesign the BCDS to ensure that it meets all financial management and accounting standards. Management in February 2000 provided a design plan for the BCDS. While the plan discusses such areas as financial reporting, cash reconciliations, a data conversion strategy, data integrity issues, meeting DCIA requirements, and other financial management controls, the plan lacks sufficient detail of these concepts. In addition, the plan does not provide time frames and milestones for completion of the system's design and implementation.

Wage and Hour's Civil Monetary Penalties (CMP) System

In our FY 1993 audit, we recommended that WHD install a CMP tracking system which would function as a subsidiary for CMP activity and related receivable balances. A new CMP system is substantially complete; however, some system features and reports are still lacking.

In our FY 1999 audit, WHD reviewed the validity of initial data entered into the new CMP system and initiated an ongoing data entry quality review program. Although misstated account balance errors have declined as a result, weaknesses in system and operational controls and compliance areas continue to exist. Penalties are not always recorded as of the date the CMP claim becomes legally enforceable and measurable. Data entry errors continue to occur as well. The WHD has agreed to make necessary changes to the CMP system and continue to strengthen internal controls.

FECA Program

Segregation of Duties

We continued to note inadequate segregation of duties over FECA payments in that claims examiners can initiate and direct payments. This weakness is particularly acute for EFT payments. However, management has recently implemented policies and procedures to resolve this finding, the effects of which will be assessed in the year 2000 audit.

Reconciliation of Funds with Treasury

Improvements are still needed in the reconciliation process between Treasury reports and the system used to account for billings to other Federal agencies for Federal workers compensation benefits paid by DOL on their behalf. We also continued to note that cash receipts are not timely posted.

Continuing Eligibility

Improvements are needed in regard to the verification of the continuing eligibility of claimants. A claimant's continuing eligibility is required in three areas: annual self-certification of earnings and dependency information, current medical evidence corroborating continuing disability, and earnings verification with SSA. FECA does not have policies and procedures in place which ensure that documents are requested and received on a timely basis to confirm a claimant's continuing eligibility.

Accounts Receivable

We continue to note that the Office of Workers' Compensation (OWCP) debt management system includes inaccurate accounts receivable balances due to errors in recording overpayments and assessment of interest and other posting errors.

Fines and Penalties

Recording of Revenue Transactions

PWBA recognizes revenue as a result of penalties imposed on pension plan administrators for Employee Retirement Income Security Act violations. PWBA's revenue transactions were not recorded as of the date that a legally enforceable claim was established. A valid revenue exists when the final order is effective and the claim is enforceable, which should be 30 days after a notice of intent is sent. PWBA does not recognize the revenue until the date that a written notice of penalty assessment is sent, which usually takes over a month to issue after the final order becomes effective. PWBA believes that the notice of penalty assessment represents the final order.

Reconciling DOLAR$ to Subsidiary System

MSHA recognizes revenue as a result of assessments of civil monetary penalties for violations of the Federal Mine Safety and Health Act. In our FY 1996 audit, we recommended that steps be taken to ensure that MSHA's accounting system be able to provide transaction level detail to support billings, collections, writeoffs, accrued interest, administrative fees, and other adjustments in compliance with OMB Circular A-127. MSHA has improved its system and provided a database with transaction level detail; however, final totals do not agree with DOLAR$. MSHA needs to implement monthly reconciliations and include transaction entry dates in the system.

Property and Equipment

Job Corps' Real and Personal Property

In past years, we reported numerous issues related to ETA's accounting of Job Corps' real and personal property. The systems used by ETA consist of manual spreadsheets, which are updated and recorded in the general ledger at year end only and are not reconcilable to the cost reports submitted by Job Corps' contractors. In FY 2000, ETA plans to implement and integrate the construction-in-progress module into the Department's existing property system, resulting in a fully integrated subsidiary ledger supporting the Department's general ledger.

SESA Real Property

In prior years, we reported that ETA did not maintain sufficient accountability over real property purchased with State Employment Security Agencies' (SESA) grant funds in which the Department maintains a reversionary interest.

ETA established a position to monitor and develop written guidance for recording of SESA real property. However, ETA still cannot provide a complete and up-to-date SESA inventory list or State certifications of SESA real property.

Unemployment Trust Fund (UTF)

Trust Fund Administrative Assessments

As initially noted in our FY 1992 audit, ETA needs supporting data to document that DOL's administrative charges to the UTF represent actual expenditures in accordance with the budget. The Department now maintains that the transfers to departmental agencies from the Trust Fund may not be limited in how they are expended. Management is reviewing appropriation language and the intent of congressional action to determine the allowable use of these funds.

Federal Employees Unemployment Compensation

In previous audits of the UTF, we noted the need to establish an accounting system for the Federal Employment Compensation (FEC) Account. The remaining action to completely address this issue is the integration of the FEC accounting system with the Department's general ledger. Management expects to correct flaws in the crosswalk between the FEC system and DOLAR$ during FY 2000.

Longshore Program

Payments to Deceased Claimants

Longshore does not have adequate controls in place to ensure payments are promptly suspended after a claimant's death. Seventy-five claimants were identified as receiving payments after their deaths. The program has initiated efforts to be included in the monthly Social Security matches already being performed by the other OWCP benefit programs to identify deceased claimants more timely.

Automated Rehabilitation Payment System

In previous audits, weaknesses were identified in the internal controls for the reporting and authorization of payments to rehabilitation service providers. The weaknesses pertain to the controls between the district offices' submission of bills and the national office authorization for payment. An automated system was developed and implemented during FY 1999. However, many district offices have not fully converted to the new system.

Black Lung Disability Trust Fund (BLDTF)

Our FY 1995 audit noted that several assumptions used by the Black Lung actuarial model had not been recently updated or reviewed to determine if changes were necessary. ESA agreed to review and revise elements of the actuarial model. Management is in the process of revising the age distribution, new entrant assumptions, and mortality table updates. The changes are expected to be completed during FY 2000.

Accounts Receivable

In our FY 1996 audit, we noted the need for guidance to the agencies on the proper identification, accounting, collection, and reporting for accounts receivable. The Chief Financial Officer has revised the Debt Management section of the Department of Labor Manual Series (DLMS). The revised document is awaiting review and final approval.

Working Capital Fund (WCF) Cost Allocations

We noted in our FY 1992 audit the need for developing a strategy for allocating DOL Academy costs based on usage of the Academy's training services. During FY 1999, only 19 percent of the training center's costs were allocated to agencies based on direct usage. Management is satisfied with the results of the allocation methodology, but will meet to discuss our concerns during FY 2000.

Performance Measures

We previously reported the need for the Unemployment Insurance Service to verify the accuracy of non-Federal entity data reported to DOL and used for performance measurement. A verification process has been piloted and full implementation is planned in FY 2001.

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We noted other matters involving the internal control and its operations that will be reported to the management of DOL in a separate letter.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of the DOL is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, as amended, including the requirements referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the DOL.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08, as amended, which are described below.

Debt Management

Five DOL agencies or programs have not referred substantially all receivables that have been delinquent for a period of 180 days, totaling approximately $12 million, to the Department of the Treasury for collection as required by the *Debt Collection Improvement Act of 1996* (DCIA).

Grant Closeout Process

JTPA grants were not closed out in accordance with applicable regulations and departmental policy. Although ETA has revised its grant closeout tracking system, several areas remain to be corrected, such as including JTPA grants to states, regional office grants and contracts, and the current status of the grant file. Finally, although ETA has made progress in reducing a backlog of open grants and contracts, there still exists a large number of grants and contracts which need to be closed.

Establishment of Advisory Council by UTF

During FY 1997, we noted that the Advisory Council on Unemployment Compensation (ACUC), required by section 908 of the *Social Security Act*, had not been reestablished. Discussions have begun to reestablish the Council in FY 2000.

For laws and regulations tested, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB 98-08, as amended, our tests of compliance disclosed no instances of noncompliance other than those mentioned in the preceding paragraph.

COMPLIANCE WITH FFMIA

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

Our FY 1997 audit disclosed that seven subsidiary DOL financial management systems did not substantially comply with one or more of the three requirements discussed in the preceding paragraph. The results of the current year audit disclosed that four of the seven systems remain in noncompliance:

- Wage and Hour's Back Wage system,
- Wage and Hour's Civil Monetary Penalties system,
- MSHA's penalty tracking system, and
- Job Corps' personal property system.

In addition, the current audit disclosed that the ETA Grants Costs System did not substantially comply with FFMIA requirements.

Noncompliance issues are detailed in the Findings and Recommendations section and include: complete, timely, reliable and consistent information not provided; financial information not processed effectively and efficiently; a complete and adequate audit trail not provided; and transaction detail supporting SGL accounts not readily available. The Department is working to correct these deficiencies within the required time frame established by FFMIA (3 years).

Management's comments on the findings and recommendations on noncompliance with laws and regulations and noncompliance with FFMIA, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings, are included in the Findings and Recommendations section of this report.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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This report is intended solely for the information and use of the management of the U. S. Department of Labor, the Office of Management and Budget, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

John J. Getek
Assistant Inspector General for Audit

February 10, 2000

FINANCIAL STATEMENT AUDIT FINDINGS UNDER THE CHIEF FINANCIAL OFFICERS ACT

The following table provides a statistical summary of open audit findings as required under the Chief Financial Officers Act.

AUDIT AREA	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	Total Open
Crosscutting Issues:									
Financial Reporting									0
Debt Management							2		2
EDP Controls				2		5	4	19	30
Funds with U.S. Treasury							1		1
Accounting for Grants		1	1	1	2	3	1	14	23
Fines and Penalties					1	1		1	3
Property and Equipment				4		5			9
Accounts Receivable					1				1
Working Capital Fund Cost Allocation	1								1
Performance Measures	1								1
Program Specific Issues:									
Wage and Hour's Back Wage Systems		2			1	7			10
Wage and Hour CMP Systems		2				4			6
FECA Program			1	1	2		1		5
Longshore and Harbor Workers' Compensation Act Special Fund						1		3	4
Black Lung Disability Trust Fund				1					1
Unemployment Trust Fund			2			1			3
Trust Fund Administrative Cost	1								1
Total Open Recommendations	3	5	4	9	7	27	9	37	101

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) REPORTING

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are in substantial compliance with OMB Circular A-127, Joint Financial Management Improvement Program (JFMIP) requirements, Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. The circular prescribes generally for systems "to process and record financial events effectively and efficiently, and to provide complete, timely, reliable, and consistent information for decision makers and the public."

Of the 22 DOL financial management systems, the five listed below do not substantially comply with FFMIA. Corrective action plans are in process to resolve each of these noncompliances. For a detailed description of these noncompliance issues and corrective action plans, see the DOL FY 1999 audit report. ■

Financial System	Major Compliance Issues
ESA's Back Wage System	System did not process financial information effectively and efficiently and did not provide complete, timely, reliable, and consistent information.
ESA's Civil Monetary Penalties System	System failed to process financial information effectively and efficiently and failed to provide complete, timely, reliable, and consistent information.
ETA's Job Corps Personal Property System	Transactions from the system cannot be reconciled to the DOLAR$ system which records all Job Corps Center cost activity.
ETA's Grant Costs Recording System	The cost information recorded in the general ledger as of September 30, 1999 was not complete or reliable, and could not be used for decision making purposes or for management of grants.
MSHA's Fines and Penalties Systems	Finding remains open pending implementation of monthly reconciliation procedures and modification of the system to record the transaction entry date for all events entered in the system, process data entered using this transaction date, and provide revised reports.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) REPORTING

With this unqualified opinion and other information, I can certify with reasonable assurance that, with the exception of the items identified in this report, the Department's systems of accounting and internal controls comply with the provisions of the Federal Managers' Financial Integrity Act.

Alexis M. Herman
Secretary of Labor

Three management control weaknesses, reported in prior years under Section 2 of the Act, remain open.

ERISA Audit Process

The Department is continuing to pursue legislative action to bring to closure a long-standing issue involving employment benefit plan audits. Both the Government Accounting Office (GAO) and OIG have identified the limited scope of the audit provision of the Employee Retirement Income Security Act (ERISA) as a major program issue, as the Act does not provide adequate coverage for the audit of certain pension plans. In the judgment of GAO and OIG, enactment of legislation broadening the scope of certain pension plan audit requirements is needed. The issue continues to be reported in the Department's FMFIA report and depends upon Congressional legislative action for resolution.

Accounting for State Employment Security Agency (SESA) Real Property

The Employment and Training Administration (ETA) has not maintained sufficient accountability

DOL STATISTICAL SUMMARY OF PERFORMANCE

Number of Material Weaknesses Section 2			
	Reported	Corrected	Pending
Prior Years	54	52	2
1996	1	0	1
1997	0	0	0
1998	0	0	0
1999	0	0	0
DOL Total	55	52	3

Number of Material Nonconformances Section 4			
	Reported	Corrected	Pending
Prior Years	101	101	0
1996	0	0	0
1997	0	0	0
1998	0	0	0
1999	2	0	2
DOL Total	103	101	2

Of the total number corrected, 3 were corrected in 1999.

over real property purchased with SESA grant funds in which the Department maintains a reversionary interest. ETA was not able to provide an inventory of State SESA property nor determine if States had conducted required annual certifications of SESA property. The agency has established a position to monitor and develop written guidance for recording SESA real property, and ETA is currently updating the SESA real property inventory list and obtaining State certifications.

Occupational Injury and Illness Data

The Occupational Safety and Health Administration (OSHA) is continuing its initiative of improving its site-specific data collection. This will improve OSHA's ability to measure injury, illness, and fatality rates, to target agency interventions on the most hazardous work sites, and to measure program outcomes established under the Government Performance and Results Act (GPRA). The initiative includes the development of a quality control program to monitor employer injury and illness reporting, and is expected to be completed during FY 2000.

During FY 1999, the Department reported two material nonconformances under Section 4 of the Act:

Entitywide security programs are developed, documented, and implemented for all departmental systems. The programs should include an up-to-date security plan, risk assessment, security management structure, and access monitoring.

The Chief Information Officer (CIO) has drafted a "Department of Labor Computer Security Handbook." The handbook is being reviewed by all program agencies for approval. Resolution of this finding is anticipated when the computer security handbook is issued and vulnerability assessments are scheduled for all major financially significant applications and support systems.

Number of Material Weaknesses Section 2			
Title	**Year First Reported**	**Target Date for Correction in 1997 FMFIA Report**	**Current Target Date for Correction**
ERISA Audit Process	1989	Dependent on action by Congress	Dependent on action by Congress
Occupational Injury and Illness Data	1993	1998	2000
Accounting for SESA Real Property	1996	1998	2000

Number of Material Nonconformances Section 4			
Title	**Year First Reported**	**Target Date for Correction in 1998 FMFIA Report**	**Current Target Date for Correction**
Receipt, Processing and Recording Grantee Cost Reporting	1999	N/A	2000
Update Computer Security Manual and evaluate and monitor agencys' compliance with the provisions of the manual	1999	N/A	2000

Improve ETA's systems for recording grant and contract costs to comply with FMFIA. Specifically:

- Costs should be accurately and timely recorded in the general ledger. In the interim, procedures should be immediately implemented to manually record grant and contract costs using direct DOLAR$ (the Department's core accounting system) input.

- Efforts to complete the cost module should be accelerated so that costs can be electronically transmitted to the general ledger as soon as possible.

ETA has begun to:

- record September 30, 1999 cost information manually in DOLAR$;
- complete the development and implementation of the Enterprise Information Management System (EIMS) and its electronic interface with DOLAR$;
- carry out a comprehensive review of cost information for programs not slated presently to submit cost reports via the EIMS;
- review program cost reporting requirements to see what changes are needed to record cost reports for all ETA programs; and
- revise their grant accrual methodology to meet applicable Federal accounting standards and guidance, and properly reflect grant costs in DOLAR$. ■

1998 Audit Summary as of 9/30/99	**($ in thousands)**
Affected amounts in **106** audits comprised of **638** recommendations over one year old	$48,916
Less:	
Value of 108 open recommendations under administrative law or Federal Court appeal	**$11,500**
Funds Put to Better Use	**$7,000**
Amounts referred or in process of referral to the Department of Treasury	**$7,239**
Balance of 88 open audits	**$22,777**

MANAGEMENT REPORTING UNDER THE INSPECTOR GENERAL ACT AMENDMENTS OF 1988

The Inspector General Act Amendments of 1988 require explanations for all audit reports with recommendations open for more than one year. DOL management and audit communities agree that some of these audit resolutions will require several years to complete the corrective action. As of September 30, 1999, 106 audit reports have been open for over one year. The total value of open audits of $48.9 million covers 638 separate recommendations.

The table demonstrates that most of the reportable audits and recommendations that are over one year old are not under the direct control of, and cannot be closed by, the Department. Auditees have certain rights to appeal audit decisions made by OIG, including appeals to an Administrative Law Judge or a Federal Circuit Court of Appeals. Audits are not considered closed because the claim is being appealed and sent forward for further action. DOL agencies and OIG jointly manage and update an audit tracking system where the current status of each open audit is maintained. Final closure of the audit is determined only by final decisions of the reviewing officials. Many of these decisions take years before being rendered and the audit closed.

The most significant of the non-monetary open audit findings are discussed in this report. A listing of all open audits is available upon request from the Department's Office of the Chief Financial Officer. ■

DOL FINANCIAL SYSTEMS AND OPERATIONS

Modernization of the Department's Core Accounting System (DOLAR$)

OCFO took a very important first step in a long range effort to modernize the Department's financial systems by conducting a requirements analysis. Agency financial managers were extensively consulted during this analysis. The resulting recommendations provide a blueprint for investments over the next several years to ensure that DOL maintains its leadership position among Federal agencies.

Debt Management

The Office of the Chief Financial Officer monitors the debt management program of the Department. The debt management operations of OSHA, MSHA, ESA, and ETA make up nearly all the receivable activity of the department. The larger program agencies manage their own receivables, working directly with their clients and vendors. For many of DOL's program agencies, this is a natural extension of their day-to-day work with the organizations they regulate.

DOL debt management accounts for a relatively small part of our financial management activity, as the Department does not operate loan or other commercial programs. The majority of debts managed by the Department relate to the assessment of fines and penalties in our enforcement programs. With the implementation of the Debt Collection Improvement Act of 1996 (DCIA), DOL elected to cross-service all delinquent debts with the Department of Treasury. By the end of FY 1999, 83 percent of eligible delinquent debts had been referred to Treasury for collection. A higher rate of referrals is required for the Department to comply with the requirements of DCIA. Detailed information on this finding may be found in the FY 1999 Audit.

The table below provides information on total debts for the Department as reported to the Department of the Treasury in the Report on Receivables for FY 1999:

Delinquent Debt Data Departmentwide Totals for Fiscal Year 1999 (in thousands)	
Delinquent Debt (1-180 days)	$19,805
Delinquent Debt (181 + days)	$67,527
Total Collections	($107,642)
New Receivables	$128,965
Eligible to be Referred	$39,637
Debts Referred to Treasury since DCIA Implementation	$45,653

Electronic Fund Transfer (EFT)

The Department's FY 1999 EFT performance of 46 percent represents an increase of 10 percent above the FY 1998 EFT rate. Over 97 percent of salary and travel payments were made electronically in FY 1999; however, the Department lags behind government averages due to the low EFT participation rate and heavy volume in ESA's medical and benefits programs. These FECA programs account for 83 percent of DOL's total payment volume. Deficiencies in the Department's core accounting system hinder the capacity for certain EFT vendor payments. This system limitation is scheduled for correction in FY 2000.

The FECA payment system is undergoing redesign to permit EFT payments and is scheduled for completion in year 2001.

EFT payment rates continued to improve in FY 1999 from 93 percent to 98 percent payments.

DOL EFT Payments for 1999			
	FY97	FY98	FY99
Administrative Vendors	49%	53%	58%
Travel & Miscellaneous	23%	83%	98%
Salary & Awards	91%	96%	97%
ESA Programs	26%	23%	32%
Total	35%	36%	46%

User Charges – Policy Review Process

In accordance with the Chief Financial Officers (CFO) Act and OMB Circular A-25, departmentwide guidance has been developed to establish policy, procedures and responsibility for implementing and managing user charges in the Department of Labor. The guidance includes the biennial review requirements of the CFO Act. Reviews on the status of the Department's user fees will be conducted by June 2000.

Electronic Data Processing (EDP)

To gain assurance that financial data produced by Electronic Data Processing (EDP) systems are reliable, the Office of the Inspector General reviewed OCFO's Department of Labor Accounting and Related Systems (DOLAR$) as well as DOL agency systems. The Office of the Chief Information Officer, the Office of the Chief Financial Officer and the major agencies are addressing each of these findings in a departmentwide effort to update system security plans. For a detailed overview of these findings, see the FY 1999 Audit report.

Intergovernmental Affairs

The Department of Labor takes pride in contributing to effective financial management governmentwide. The Department participates in intergovernmental workgroups to resolve issues common among the Federal agencies. The Department's CFO chairs the CFO Council's Human Resources Committee which has developed products to help financial managers improve the professional development of their workforce, use new strategies to resolve recruitment and retention issues, and improve the qualification requirements for workers. Other CFO officials are actively involved recommending standards of accountancy to the Federal Accounting Standards Advisory Board, the Federal Credit Policy Working Group, and other inter-agency regulatory and policy-making bodies that affect financial management in the Federal government. ■